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Finance Internal Control Internal Control Regulations and Requirements

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Agencies must ensure proper use of Federal funds by taking all necessary steps to prevent fraud, waste, and abuse



When the public entrusts its funds to the care of your organization, you are responsible for ensuring the proper use of these funds by taking all necessary steps to prevent fraud, waste and abuse.



Your organization's internal controls — those processes and procedures that safeguard assets and achieve your organizational goals — will help you comply with Federal regulations while remaining fiscally diligent. Responsibility for the success of your internal controls belongs to everyone in the organization — from top to bottom.

The Federal government acknowledged the value of internal controls when it first set up a mandatory regulatory framework and instituted compliance audits for any recipient of Federal funds. The Federal regulations and guidelines are consistent with the nationally accepted framework of the Committee of Sponsoring Organizations, or COSO.

The Federal government does not prescribe a single internal control program, but it does

provide guidance that is specifically designed to help agencies comply with Federal regulations. Here are some of the general categories.

To see how the guidelines might apply, let's look at an example related to activities allowed or un-allowed.

If your organization expects to be reimbursed for materials, or any other project expenditure, your State department of transportation, or State DOT, as the oversight agency must first authorize the project work activity. No local public agency, or LPA, wants to pick up the tab for unallowable expenses, so your organization needs internal controls to be in place that ensures proper project authorization before any procurements are initiated or work begins.



Let's look at real property acquisition and relocation assistance.

As an internal control activity, prior to your employees acquiring real property or handling relocation assistance, they are trained in the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act as amended.

The foundation of any effective internal control program is documentation and managerial oversight. If your organization doesn't have written procedural manuals or desktop instructions, it becomes difficult to demonstrate that it is following Federal requirements. The same is true for managerial oversight. If no one is responsible for implementing and monitoring internal controls, it is reasonable to question whether any are being followed.

Compliance auditors will place considerable emphasis on the quality of your documentation and overall control environment.

Internal control is not the function of a few employees in your organization, but the responsibility of everyone. In executing effective internal controls, your organization should consider answers to the following key questions:



- What role do you have in ensuring that transactions are properly executed and recorded?
- What role do you have in ensuring that organizational assets are safeguarded?
- Are you using written procedures that are up to date and readily available?
- As a leader, are you modeling the types of behaviors that will lead to effective internal control?

Your agency and staff are responsible for understanding and implementing Internal Control. Your agency will benefit from implementing internal controls that allow for effective and efficient operations, increase the reliability of financial reporting, and ensure compliance with applicable laws and regulations. For more information about Internal Control, contact your State DOT.

Additional Resources

- Assistance for non-Federal entities and their auditors to comply with OMB internal control requirements
http://www.whitehouse.gov/sites/default/files/omb/circulars/a133_compliance/08/pt6.pdf
- Guidance for Federal agencies in managing grants and cooperative agreements
http://www.whitehouse.gov/omb/circulars_a102/
- Standards for obtaining consistency among Federal agencies for audit of States, local governments, and non-profits expending Federal funds
<http://www.whitehouse.gov/sites/default/files/omb/circulars/a133/a133.html>
- Rules for administering U.S. DOT grants to States and local governments
<http://www.ecfr.gov/cgi/t/text/text-idx?c=ecfr&sid=60747ff7a176cb9fb0c30f83c9b4564f&rqn=div5&view=text&node=49:1.0.1.1.12&idno=49>
- Rules for administration of U.S. DOT-awarded grants to non-profits, hospitals, institutions of higher education, and local governments
<http://www.ecfr.gov/cgi/t/text/text-idx?c=ecfr&sid=60747ff7a176cb9fb0c30f83c9b4564f&rqn=div5&view=text&node=49:1.0.1.1.13&idno=49>
- Guidance on subawards made by State and local governments to "covered" organizations identified within the document
http://www.whitehouse.gov/omb/circulars_a110/

The content of this document is not a substitute for information obtained from State departments of transportation, appropriate FHWA Division Offices, and applicable laws. Scenarios have been simplified for emphasis and do not necessarily reflect the actual range of requirements applicable to the scenario or this topic. This document was created under contract number DTFH61-11-D-00025 by the Federal Highway Administration, U.S. Department of Transportation, and is offered to the public to heighten and focus awareness of Federal-aid requirements within the local public agencies community and reinforces the importance of these necessary policies, procedures, and practices.

This companion resource is the script content for the video production of the same name.